Case Study: easyJet and Ryanair
Flying High with Low Prices

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Story - easyJet

- Founded in March 1995 by Stelios Haji-Ioannou - the family remains the major shareholder
- The airline is based at easyLand, at Luton airport
Concept - easyJet

Reduction of costs through:

- reduction of distribution costs
- No free lunch
- Efficient use of airports (fast turnaround terms - 30 min))
- Operations out of secondary airports
- main target group: business travelers

Story - Ryanair

- 1985 founded by the Ryan Family (with a share capital of only £ 1 Million)
- First route from Waterford in Ireland to London Gatwick
Concept - Ryanair

- Cheap point-to-point flights from secondary airport
- Single aircraft policy
- Fast turnarounds
- Main target group: leisure customers

1. How do easyJet and Ryanair achieve success using low-price strategies?
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- A new system allows airline seats to be priced according to supply and demand and achieve high occupancy.
  - how does it work?
    They start with low ticket prices, and raise it according to demand.

Stelios from easyJet calls this system „yield management“

Examples:

**Ryanair:** Linz → Stansted  
flight: 08.12.06 → € 59.99  
flight: 08.04.07 → € 39.99

**easyJet:** Munich → Stansted  
flight: 03.12.06 → €188.89  
flight: 02.04.07 → € 48.99
1. How do easyJet and Ryanair achieve success using low-price strategies?

- Strict cost control achieved through:
  - simplicity (using one aircraft type)
  - productivity (fast turnaround terms)
  - direct distribution (using the internet for bookings and payment)
  - on board: no drinks, no meals

- Secondary airports with low taxes
- Few destinations → with higher frequency

Price elastic demand:
→ means that demand increases when costs fall.
2. What are the advantages and risks associated with low-price strategies?

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Risks</th>
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<tbody>
<tr>
<td>✓ A bigger market share</td>
<td>✓ Price discrimination</td>
</tr>
<tr>
<td>✓ New target market</td>
<td>✓ Customer dissatisfaction</td>
</tr>
<tr>
<td>✓ The barriers to enter are higher</td>
<td>✓ Phycological factors</td>
</tr>
<tr>
<td>✓ Predatory pricing</td>
<td>- low price = low quality</td>
</tr>
<tr>
<td></td>
<td>- Prestige</td>
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</table>
3. To what extent do the conditions for charging low prices discussed in this chapter hold for easyJet and Ryanair?

<table>
<thead>
<tr>
<th>Conditions for charging low prices</th>
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<tbody>
<tr>
<td>?</td>
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<tr>
<td>✓ Market presence or domination</td>
</tr>
<tr>
<td>✓ Experience curve effect/low costs</td>
</tr>
<tr>
<td>✓ Make money later</td>
</tr>
<tr>
<td>✓ Make money elsewhere</td>
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<tr>
<td>✓ Barrier to entry</td>
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<tr>
<td>✓ Predation</td>
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3. To what extent do the conditions for charging low prices........... ?

- Only feasible alternative:
  → there was no need for another airline with „normal“ prices.

- Ryanair and easyJet wanted and still want to gain market presence
  - attractive for price sensitive customers

3. To what extent do the conditions for charging low prices........... ?

- Experience curve effect/low costs:
  - through the continual improvement of the processes you can save costs.

- To make money later:
  - with drinks and meals on board

- To make money elsewhere:
  - with other services like car hire, hotels, internet cafes and insurances
3. To what extent do the conditions for charging low prices ..........?

- **Barrier to enter:**
  - High-margin strategy would attract many companies to enter the market

- **Predatory pricing:**
  - Low prices may be charged in attempt to put other companies out of business

4. How successful do you believe easyCinema is likely to be?
What is easyCinema?

- Low cost movie entertainment

**Motivation**: half empty cinema auditoriums

- Stelios proposed an infinite number of prices depending on supply and demand

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Prices of easyCinema

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult First Run:</td>
<td>£4.50 Monday to Friday after 5:00 p.m. and all day Saturday and Sunday</td>
</tr>
<tr>
<td>Adult Ticket:</td>
<td>Monday to Friday before 5pm £3.50 except ALL DAY Super Tuesday Discount £3.50</td>
</tr>
<tr>
<td>Child 14 &amp; Under First Run:</td>
<td>£3.20 all show times / Ticket must be purchased at the cinema 30 minutes prior to start time</td>
</tr>
<tr>
<td>Low Prices:</td>
<td>Check the web page for films with variable pricing every day.</td>
</tr>
<tr>
<td>Deja Vu Classic:</td>
<td>£2.00 starting price Sunday afternoon and Wednesday afternoon and evening</td>
</tr>
</tbody>
</table>
Formular to sucess

- No reason to employ people to sell or tear tickets → „bar code tickets“

- Has become the busiest cinema listings websites in the UK
  → 1/2 million visitors per month

We think that it will work, because Stelios addresses also here the price-sensitive customers. A lot of people do not want to spend € 8,- or more for a cinema-ticket.
Thank you!